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Chief, Supply Policy & Procedures Staff

Chief, Supply Operations Branch

Government Equipment Furnished to Contractors

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1. The following paragraphs outline current procedures for processing subject equipment and set forth recommended changes which are deemed more compatible with existing regulations governing the control of property and the financing of stock replenishment.

2. Agency stock furnished to contractors as a convenience or a necessity for successfully completing a contract or a series of contracts falls into four categories currently handled as follows:

a. Major items to be repaired or modified: Machine Allocation Code 03 has been established to reflect the quantities of items in this category, and transaction codes 8-1 and 7-1 are utilized to effect transfers to and from this allocation.

b. Expendable material used in connection with a. above, or otherwise justified for consumption by contractor. Requisitions citing property authorization are secured from the office sponsoring the contract and the material is costed to their allotment utilizing the 6-1 transaction code.

c. Administrative non-expendable material, such as combination lock safes, for which reasonable though indefinite expectations of recovery exist: Release of property in this category is processed in the same manner as 2. b. above.

d. Non-administrative, non-expendable property furnished the contractor to be used as test equipment in the furtherance of the contractual service, which equipment is anticipated for recovery upon completion of the contract: Because sponsoring offices have balked at citing property authorization, these transactions have been processed as a transfer to Allocation Code 03 - "Out for Modification and Repair".

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**SUBJECT: Government Equipment Furnished to Contractors**

3. We believe the processing procedures outlined in categories 2. c. and 2. d. above to be unsatisfactory for these reasons:

a. The Armed Services Procurement Regulations require that the contract administrator maintain property records for Government Furnished Equipment (GFE) susceptible to audit or cause such to be maintained by the contractor. This provision, in effect, determines that accountability for GFE is an activity of the appropriate Procurement Office. Therefore, the Supply Division should release GFE to the Procurement Division as a transfer of accountability rather than as an issue to cost or to continue carrying it on their own accountable records.

b. The Property Authorization mechanism is designed among other things to finance the replenishment of Agency stock. Whenever material is released from stock at no cost, no reduction in Property Authorization (PA) occurs and the costs resulting from replenishment of that material produce an imbalance between the aggregate PA available to Agency activities and the bulk Stock Procurement Allotments. Therefore PA should be secured for all releases of GFE from stock including those in category 2. d. above.

4. Recommendations:

It is recommended that the Technical Accounting Staff, Office of the Comptroller:

- a. Establish a cost code for the Procurement Division.
- b. Determine or devise as necessary, suitable transaction codes governing transfers of accountability between the Supply and Procurement Divisions.
- c. Determine the funding arrangements whereby the bulk procurement allotments will receive the monies necessary to finance the replenishment of GFE.

Distribution:

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